

California Performance Review Commission
Testimony of Gerald H. Goldberg, Executive Officer of the
Franchise Tax Board

August 27, 2004

Thank you for inviting me here today to address CPR recommendations. We've taken a number of actions at the Franchise Tax Board (FTB) over the last several years that mirror recommendations in the report—these innovations have not only made us more effective in fulfilling our mission of bringing in much needed revenues for the State, but have enabled us to do so more efficiently while reducing taxpayer burden. I'd like to share some of our experiences with you here today.

Making our Technology Work Harder for Us

Given the massive quantities of data inherent in the work we do, it is not surprising that we rely a great deal on information technology to get it done efficiently and effectively. To get the most out of every IT dollar, FTB has embarked on a number of innovations over the last few years that demonstrate the benefits, on a departmental basis, of some of the recommendations that the CPR is proposing at the state level:

- Provide a Framework
 - Over the last few years, FTB has been developing an Enterprise Architecture, which consists of several components. Two of those are the Technical and Security components. The Technical Architecture deals primarily with hardware and software. Since we have adopted the Architecture, we have made purchasing decisions that constrain the number of products we are required to support by canceling scheduled purchases due to direction changes made evident by the architecture. In addition to these hard savings, the decisions have reduced the number of skill sets required for our technical staff and has reduced the complexity of our systems, thus making them easier to maintain and modify.
 - The Security Architecture deals with setting standards for security within our systems and is in the final stages of completion. We used trusted industry sources to create a desired architecture and then identified differences between actual and desired outcomes. We will use this architecture to improve policies and procedures. It will ensure we have appropriate security for all of our IT efforts as we go forward.
- Take Advantage of Open Source
 - About one year ago, we adopted strategy of using open source software to reduce costs. During that time, we have had a reduction in software costs in two ways: (1) replacing products that have costs associated with free open source products, and (2) vendors have significantly discounted the cost of their products when we have open source alternatives.

- Manage IT More Efficiently
 - Over the past few years, FTB has been consolidating the management of our server infrastructure. Phase one was the consolidation of our email infrastructure and services. This has provided us with a fault tolerant infrastructure to this mission critical service. In addition, it has reduced our personnel services cost while providing an industry strength product (we identified 3 pys in the analysis process)
 - Phase two was the consolidation of most of our remaining servers, which has enabled us to reduce the total count of our servers. We have reduced the server maintenance support staff and redirected those staff to security activities. Recent projections indicate a \$5 million savings over a 5-year period so far.
- Reduce Procurement Risks While Improving Results
 - FTB pioneered the use of performance based-procurement and has used it to develop some of our most highly complex IT projects including our Business Entities Tax System, Integrated Nonfiler Collection System, Accounts Receivable Collection System and Child Support Enforcement System.
 - We have also implemented strategic sourcing for commodities, information technology hardware and software, and services. At FTB, we aggregate purchases for volume discounts, use common purchasing specifications, negotiate department-wide contracts, and establish cooperative relationships with the manufacturers and suppliers. Through these practices, we have maximized our buying power and obtained significant cost savings in commodities and business services, e.g., data processing and office supplies, IT hardware and software, and contract services.
 - We support cooperative purchasing programs with other public entities. We currently use Statewide Commodity Contracts and are part of Western States Contracting Alliance. We believe the addition of U.S Communities would be another resource to use in order to obtain best pricing.
- Recognize the Need for Strong Governance
 - As resources and money continued to be constrained, FTB redesigned our technology governance process to improve the speed of our decision making, ensure we completed projects which provided the best strategic value for the department, develop projects from a departmental business perspective and provide project management consistency through the project life cycle. As we have evolved this IT governance framework to encompass governance generally, we have created a "one stop shopping" approach to decision making that enables us to deal with IT and other issues within the broadest context—with consideration to departmental budget and resource issues, policy considerations, business imperatives, and other factors.

- Our execution of projects is subject to a project management framework, Enterprise Architecture, and checks to address redundancy and security. In addition, we have experienced success in using a “project charter” to create executive understanding and commitment and establish shared expectations with regard to large, complex projects.

Where We Hope the CPR Will Help Move the State

Our experience has shown that the State could benefit from many of the CPR recommendations just as the FTB has benefited from them at the departmental level. In addition, there are several areas where we'd like to see the CPR spur further action:

- *Leverage Procurements.* FTB is actively participating in the CPR's Strategic Sourcing initiative with the Department of General Services. We are hopeful that this effort will succeed in bringing together multiple departments whose leveraged procurements can produce major savings and efficiencies for the state.
- *Consolidate IT contracts.* Our experience is when we can negotiate multi-year contracts, we see a significant reduction in our costs therefore believe negotiating contracts at the state level would provide benefits to departments and reduce our costs.
- *Voice over IP.* This is a technology we plan on using once the technology and costs are at a point we can support and have the ROI we need—we would use a phased implementation.
- *Wireless Technologies.* We continually evaluate this technology and once our security concerns are resolved we believe we will have the ROI to support implementing the technology.
- *Strong and Sustained Statewide Leadership.* We support going through the process to improve the State's management of IT to provide taxpayers the best value for their dollars. The changes proposed in the CPR report must be recognized as multi-year efforts and must be sustained for that period of time. They will require strong leadership through out the implementation phases.
- *Broad and Consistent Governance.* The governance process must maintain consistency across initiatives by incorporating technical components, such as vetting of software purchases against the approved architecture and a required consideration of open source software before purchases can be made. In addition, the project approval process needs to be a “one stop” approach. The approval must include approval of the business case, procurement approach and funding for new positions and OE&E without going to multiple organizations for those approvals. These changes must be improvements, not just a different look to old processes.
- *Departmental Buy-In.* A governance process that does not consider and meet the needs of those actually undertaking the projects invites cynicism and “gaming of the system.” On the other hand, a process that adds value to departments as well as the State, by

providing departments with access, consistency, flexibility, and a focus on mutually desired outcomes, invites collaboration and ultimately engenders greater success. It is important that the statewide governance and project management frameworks are built to meet the needs of all involved in the process.

Increasing State Revenues

With regard to state income taxes, we are already taking action on most of the recommendations in the CPR report:

- Raise State Revenue through Tax Amnesty
 - Tax amnesty is incorporated in the 2004-05 Budget and implemented in SB 1100, which recently became law. Although the specifics in the legislation do not align exactly with the CPR recommendation, they are substantially similar. We are currently undertaking all of the activities needed to implement Amnesty next year.
- Increase our Revenue-Generating Capacity
 - As the CPR recommends, we are already developing a budget change proposal (BCP) to enhance revenue collections, although it is more comprehensive than what was addressed in the CPR report. This BCP includes enhanced detection of tax preparers filing fraudulent returns, audit staff augmentation, additional information sources to identify non-filers, an informant reward program, questionable wage withholding detection, underground economy criminal investigations, and a misdemeanor prosecution program. FTB agrees with the idea of working collection cases to 3:1 and is currently addressing that workload with existing resources.
 - FTB estimates these enforcement efforts in the BCP will produce revenue benefits of \$39million in FY 2005/06, increasing to \$ 67 million in FY 2006/07, and \$81 million in FY 2007/08. In the third year, approximately 54 percent of this revenue is new (currently uncollected) revenue, with the remainder being accelerated revenue, i.e., revenue that is collected one year earlier.
- Evaluate Consolidated Cashiering
 - In accordance with legislation passed last fall (SB 956), the Legislative Analyst's Office is conducting a study of the possible consolidation of the remittance processing and cashiering functions and the mail processing operations, of the FTB, the State Board of Equalization, and the Employment Development Department, based upon specified criteria. We are working with the LAO to provide input to their report, which is due to the Legislature on November 1, 2004. This report could provide useful context regarding how best to proceed with possible consolidations.

Where We Hope the CPR Will Help Move the State

There are other recommendations in the CPR report that would impact FTB's ability to collect revenue and maintain our culture of innovation:

- *Vendor debt offset.* The CPR report recommends offsetting payments due to vendors by the debts owed by that vendor to the state. The proposed mechanism is the State Contract and Procurement Registration System. While the details of the proposal have yet to be addressed, in concept, we welcome another potential means of improving our collections function.
- *Creating a California Tax Commission.* Whereas there are a number of benefits associated with bringing FTB, the Tax Branch of the Employment Development Department, and Vehicle License Fee administration under one organization, the proposed governance of the Tax Commission raises several concerns. One serious concern relates to the evidence provided in this testimony of the highly innovative culture of the FTB and the impact that a radical change in governance would have on our ability to continue serving as innovators in state government. Other concerns relate to conflicts of interest and the elimination of direct Administration influence of the major revenue generating functions of the State.

Putting Customers First

FTB strongly supports the CPR recommendations related to developing a strong customer service framework. Serving our customers is essential to good tax administration and our number one goal at the Franchise Tax Board is creating an organization that is “customer centered.” We have done this by implementing the following five strategies:

- Ask Customers What They Need and Listen to Them
 - We have identified our customers and surveyed them to obtain more information about their opinion of our service and their need for additional services. These surveys have been done with professional tax preparers, as well as taxpayers. We have made many changes to our systems and procedures as a result of the input we received from our customers.
 - When our customer surveys indicated that there was a need for services outside the 8 to 5 workday hours that were available, we extended our hours to provide live agent service from 7:00 a.m. until 7:00 p.m. and Saturdays during the filing season. We also provide 24 hour automated phone service 365 days of the year.
 - When our customer surveys indicated that customers wanted more services available on the Internet, we mirrored many of the interactive services that are available via the telephone on our Internet website and added others that were uniquely suited to a secured environment on the Internet, such as refund status and account balance information.

- FTB has also worked cooperatively for over ten years with our sister tax agencies, including IRS, BOE and EDD, in joint customer service efforts to increase convenience for California taxpayers. These efforts include the Volunteer Income Tax Assistance Program, One Call Connect telephone service and Joint Service Centers.
- Make an Enterprise Commitment
 - Customer service is part of everyone's job, it is not exclusively the responsibility of the customer service representatives in our call center. Being customer centered has to become part of the organizational structure of every state agency.
 - At FTB, we have incorporated customer service goals into every operational business plan; included customer service questions into every examination for every classification; and into the performance measures for every program.
 - Thinking about the impact on the customer is also an element of every business decision that we make and we strive to design our business processes around the customers who will be affected by our efforts, including the design of our forms, notices and public media information, even when compliance is the main thrust of the initiative. This was the model that we used in our very successful Voluntary Compliance Initiative.
 - In 1998, FTB undertook a major re-engineering effort in its Taxpayer Services that involved moving to the best practices available in public and private sector contact centers. This re-engineering effort was enterprise-wide and included a personnel classification change, policy and procedural changes and technological changes that helped us to maximize our performance.
- Empower Employees and Customer to Resolve Problems
 - FTB has tried to make it easy for customers to access and use our products and services, empowering them to resolve routine questions and issues through convenient, self-service methods.
 - FTB has empowered its front-line employees to direct many of these customer-centered activities. We routinely survey our staff and conduct focus groups to engage them in activities that improve their work environment and their ability to provide "one and done" customer service.
 - FTB provides eight weeks of training to all new customer service representatives to give them a solid technical background in federal and state tax law, as well as the customer service skills that are necessary to handle the complex and difficult calls that we receive from taxpayers and other customers.

- Measure and Reinforce Performance
 - FTB has built into its organizational culture and performance measures an expectation of reward for customer centered behavior.
 - FTB has developed performance measures that include many customer service components such as turnaround times for refunds and service level targets for telephone and correspondence contacts.
 - In 2000, we were recognized by the U.S. Government Accounting Office as being a “best practice” agency that could serve as a model to others. One of the factors cited in the GAO report was FTB’s commitment to both quantitative and qualitative measures of performance.
- Build Trust and Confidence
 - Taxpayers not only expect good customer service, but they want that service to be provided effectively in a secure environment. They need to be able to trust that FTB will give them accurate and timely information in a manner that preserves their privacy.
 - FTB has worked hard to earn the taxpayers trust and confidence by developing a secure technology infrastructure and monitoring our service personnel to ensure that taxpayers are given accurate and complete information and that their account transactions are properly recorded.

Where We Hope the CPR Will Help Move the State

There are many CPR recommendations that can assist us in improving our commitment to customer service:

- *Make customer service a high priority.* Recognizing customer service as one of the state’s highest priorities and supporting additional funding to conduct customer surveys; develop effective performance measures; hire, train and retain qualified personnel. (GG08)
- *Pursue e-Government initiatives.* Increasing support and resources for electronic self-service applications, including on-line filing of applications and tax returns, similar to our CalFile application. (GG 11)
- *Explore partnerships.* Pursuing innovative partnerships with other public and private sector entities that can assist us in serving customers who do not have access to the Internet, such as the “Pay Station” concept outlined in the report. (GG 14)

Use Planning and Performance Measures to Drive Results

We fully support the CPR's efforts to bring more planning and performance measurement to state government. FTB has undertaken a number of initiatives in these areas over the years:

- Keep the Ultimate Destination in Mind
 - FTB has engaged in strategic planning for over twenty years. We've kept with it for so long and continue to have a high level of executive management support for planning, because it has been effective in keeping the organization moving toward our highest-level goals. While everyday crises and outside events might sometimes make our progress more erratic than we would like, our strategic plan keeps us mindful of where we ultimately want to be as an organization.
- Align Funding with Desired Outcomes
 - We use performance measures, such as cost-benefit ratios, service levels for customer contacts, and audit/collection revenue goals, to manage resources and justify budget requests. These measures also are tied to our department's strategic goals.
 - While there is no specific formula that ties performance with funding, FTB management does hold itself accountable for high-level performance goals as set forth in the budget for revenues (audit and collections workplans).
 - FTB also uses Activity Based Costing to provide managers with information and performance measures to evaluate the total cost of the departments major activities, such as the average cost to process a tax return.

Where We Hope the CPR Will Help Move the State

While we believe in the power of planning and have made significant strides in tying our strategic and business planning, performance measures, and budgeting together, there's more we'd like to do in this area. The CPR can help by providing statewide impetus and guidance for these efforts:

- *Improve statewide financial management systems.* Modernizing the state's financial systems will allow state departments to respond to requests for information from the Department of Finance and State Controllers Office (SCO) more quickly. Existing systems currently require labor intensive, manual reconciliation of data between state departments and SCO.
- *Legitimize performance measurement.* It takes additional resources to create, enhance, and maintain systems to deliver meaningful performance data. This should be recognized as a legitimate business requirement, and fully scoped and costed in studying the feasibility of any new systems.

- *Fund Outcomes.* We agree with the CPR's assessment that performance measurement and budgeting need to be brought together. Today, state agency accountability is based too much on compliance with detailed budgetary and administrative controls (such as the 6 month rule on vacant positions). These need to be eliminated or otherwise made more flexible so that agencies can focus instead on planning and achieving program outcomes.

Train New Leaders For the 21st Century

FTB strongly supports the CPR focus on leadership training to develop the next generation of leaders in state government. The CPR accurately describes the leadership crisis resulting from the expected departure of a significant majority of state managers during the next few years. Strong leadership is essential to accomplishing the goals of the CPR and ensuring that state government is equipped to meet the challenges of the 21st century. FTB has undertaken a number of leadership development and training programs in recent years:

- Partner With California's Colleges and Universities For Leadership Training
 - The FTB was instrumental in the creation of the California Leadership Institute, a leadership development program developed by the State Training Center and the University of Southern California. The FTB has also partnered with UC Davis to create management and technical development programs for its employees. These programs leverage the extensive knowledge and experience of California's premier academic institutions at relatively low one-time costs for the state. California needs to tap its rich educational resources to provide superior leadership training programs for its workforce.
- Create Effective Departmental Management Development Programs
 - In 1996, the FTB created an internal Management Development Program. The programs utilizes both internal and external leadership expertise and focuses on nine managerial competencies critical to FTB. The core competencies adopted by FTB's management team are: leadership, interpersonal skills, responsibility, ethical behavior, communication skills, problem solving/decision making, strategic/operational planning, financial management and environmental awareness.
- Create Regular Educational Programs for Managers and Supervisors
 - In addition to providing new supervisors with an internally developed supervisory block training course, the FTB created the "99-Minute Supervisor Workshop" to provide ongoing training on topics of critical importance to the job of supervision. These sessions are designed in an informative talk show format with the opportunity for interaction by participants. Topics have included coaching and mentoring, career development, conflict resolution and leading staff through

change. Each workshop session is taped for the benefit of field offices and those that could not attend.

- Provide On-line Registration for all Training Courses
 - FTB provides all employees with the capability of accessing and registering for training courses on-line through its Learning Portal and the ASPEN learning Management System. In addition to listing all internal training options, the Learning Portal also lists hundreds of training courses available to FTB employees on the web through NETg (information technology skills) and SkillSoft (general business skills). These courses are accessible twenty-four hours per day, seven days per week. The FTB portal system can also provide employees and their supervisors with a record of their training history in real time.

Where We Hope the CPR Will Help Move the State

Our experience has shown that the State could benefit from many of the CPR recommendations concerning leadership development and training programs. In addition, there are several areas where we'd like to see the CPR spur further action:

- The Governor should establish a taskforce to develop a strategic plan to create a comprehensive training system for state employees. In connection with this effort we encourage the state to bring back the California Leadership Institute as a development tool for the next generation of state leaders. The state should leverage its educational resources in partnering with California colleges and universities to provide leadership training to the state workforce.
- State agencies should establish mentoring programs to groom potential managers and executives within their organizations. These mentoring programs should be implemented immediately in order to maximize the transfer of knowledge and experience from the large number of current managers and supervisors that are expected to retire in the near future. The State Training Center or another agency should develop mentoring program guidelines and curriculum that can be utilized by individual agencies so that efforts are not duplicated.
- The state should provide a statewide Internet Portal to provide information and registration for state education and training programs. In addition, the portal should provide access to web-based training programs available to state employees.